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¶1. (U) Summary. This is Volume 9, issue 11 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- Business Confidence Hits 10-Year Low on Slowdown
- State 'Will Not Give Up' on Car Industry
- South Africa Needs a Homegrown Response to Economic Crisis, Says Motlanthe
- Procter & Gamble Invests In South African Manufacturing Plant
- SAA Fires CEO
- SAA's Financial Woes
- Sasol Trims Spending Budget to Save Cash
- New Energy Laws May Scare off Green Investors
- DWAF to Acknowledge Towns with the Cleanest Tap Water

End Summary.

Business Confidence Hits
10-Year Low on Slowdown

¶2. (U) The Bureau for Economic Research (BER) business confidence index dropped by six points to 27 points, its lowest level in 10 years, as the local economy follows the global economy into slowdown or recession. The index is calculated from an average of confidence levels in five sectors including manufacturing, retail, wholesale, motor trade, and building, and is now more than 20 points below the level it had been at this time last year, when the index started its plunge. With economic growth contracting during the first quarter, the BER expects dismal growth in 2009, or even a contraction. The benefits of a more relaxed monetary policy are likely to filter through to sectors sensitive to interest rates and fixed investment in about 12 months' time. The decline in business confidence in South Africa is not as pronounced as in other countries and is still above the lows South Africa saw as recently as 1993 and 1999. Confidence levels were prevented from dropping further due to the stimulatory national budget that was announced last month, relative stability in the exchange rate, a reduction of R2.35/liter in the price of petrol since November, and the 150 basis point cut in interest rates since December. (Business Day, March 12, 2009)

State 'Will Not Give Up' on Car Industry

¶3. (U) The automotive industry was vital to the economy and would have to be supported through the global economic crisis, Minister of Trade and Industry Mandisi Mpahlwa announced. The slump in consumer demand has seen car sales nosedive, threatening the survival of a host of supplier industries and the jobs of thousands of workers. Last month's new vehicle sales plunged to their lowest level in more than two decades. Representatives of the industry have met the government to discuss ways of supporting investment and a task team has been set up. Mpahlwa would not specify the kind of assistance that could be extended. The industry requested a R10 billion ($1 billion) rescue package which should include bridge finance to deal with the credit freeze. Mpahlwa commented that the motor industry is very important for exporting value-added goods which would help South Africa's balance of payments position. (Business Day, March 11, 2009)

South Africa Needs a Homegrown Response
 To Economic Crisis, Says Motlanthe

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¶4. (U) South Africa was not going to copy the United States' stimulus package, President Kgalema Motlanthe told businesspeople in KwaZulu-Natal. "Our response to the economic crisis must be home grown and not just copy stimulus packages of the US. Our problem is different," said Motlanthe. He pointed out that South Africa has to deal with the issue of unemployment exacerbated by layoffs caused by the economic crisis. The South African government will invest in infrastructure and education. "Government planned to invest in the

construction of roads, clinics, schools and it expected the upcoming Confederation Cup this year and the soccer World Cup next year to boast the economy," noted Motlanthe. Motlanthe highlighted that South African banks were "doing fairly well" compared to the ones in other countries because of the country's sound credit control regulations. "One of the difficulties of dealing with the economic crisis was that although it had been declared that some countries were facing recession, the extent of the crisis was not clear yet," he added. (Fin24, March 7, 2009)

Procter & Gamble Invests
In South African Manufacturing Plant

¶5. (U) Consumer goods giant Procter & Gamble plans to invest more than R200 million ($20 million) in a diaper manufacturing plant near Johannesburg. The International Trade Administration Commission's (ITAC) decision to grant rebates on the import duties of materials needed for the manufacture of the diapers helped clinch the investment. ITAC granted rebates on a variety of textile fabrics coated with plastics and used in the manufacture of disposable diapers. None of the necessary materials are manufactured in the Southern African Customs Union countries. Production at the plant, which will ultimately employ over 200 people, is in its pilot phase. With annual turnover in excess of $83 billion, Procter & Gamble is the world's top producer of consumer goods. However, its manufacturing footprint on the African continent is limited to its plants in Egypt, Nigeria, and Morocco. Procter & Gamble Managing Director for South Africa Andrew Peterson commented last year that trade facilitation efforts between countries in the Southern African Development Community could encourage expanded investment by the group. (Business Day, March 10, 2009)

SAA Fires CEO

¶6. (U) Embattled South African Airways (SAA) CEO Khaya Ngqula has

agreed to leave the airline. Ngqula had been on special leave while being investigated for alleged mismanagement. SAA confirmed that the investigation into mismanagement would continue. KPMG's forensic unit is conducting an audit into allegations surrounding issues of retention premiums, conflicts of interest, and procurement. The South African Transport and Allied Workers' Union had alleged wrongdoing by senior members of SAA management, Ngqula in particular, in a document given to the Department of Public Enterprises. The Department demanded urgent action by SAA's board. Chris Smyth will continue to act as CEO while a search is undertaken for a replacement. (Business Day, March 11, 2009)

SAA's Financial Woes

¶7. (U) SAA is engaged in a financial struggle as fears have emerged of an impending technical insolvency [similar to that of the 2004 crisis when a R6 billion ($605 million) hedging loss wiped out the airline's share capital]. SAA Chief Financial Officer Kaushik Patel told the press that the airline remains undercapitalized, even though it has received more than $1.1 billion in taxpayers' bailouts since 2004. SAA has a 110% debt-to-turnover ratio, one of the
Qsince 2004. SAA has a 110% debt-to-turnover ratio, one of the highest in the world (compared with Cathay Pacific +-67%, Lufthansa +-23%, Qantas +-47%, British Airways +-43%, and Air Canada +-63%). (Travel Hub, March 5, 2009)

Sasol Trims Spending
Budget to Save Cash

¶8. (U) Oil and chemicals group Sasol has slashed its capital spending budget for the three years to June 2011 to R48 billion ($4.8 billion), a 40% decrease from earlier plans. The budget cut is designed to conserve cash in anticipation of volatile market conditions, according to Chief Executive Pat Davies. Sasol had not finalized where the cuts would be made. The company has, however, announced a delay in the Mafutha coal-to-liquids project in Limpopo. Davies reported that the completion of the prefeasibility study for

the 80,000 barrels per day plant had been postponed. The project is under development in partnership with the Industrial Development Corporation, which will hold a 49% share in the project. State-owned PetroSA has announced plans for an ambitious 400,000 barrels per day refinery at Coega in the Eastern Cape. It is not clear how Sasol's announcement might affect its gas-to-liquids project under construction in Qatar and proposed coal-to-liquids and gas-to-liquids projects in China, India, the U.S., and Uzbekistan. (Business Report, Business Day, Engineering News, March 10, 2009)

New Energy Laws May Scare off
Green Investors

¶9. (U) Green lobbyists fear that the South African government's draft regulations on electricity generation may undermine investment in renewable energy. The regulations promote competitive pricing intended to facilitate independent power producers. They also appear to conflict with an initiative by National Energy Regulator of South Africa (NERSA) to set up preferential tariffs to promote new, clean energy technologies. WWF local representative Richard Worthington appealed to the government to withdraw the regulations because they were not compatible with the government's stated commitment to promote renewable energy and combat climate change. Parliamentarian Ruth Rabinowitz, head of the environmental group Renewable Energy Activists, questioned whether the government had any clear vision around renewable energy. NERSA had held hearings on establishing renewable energy feed-in tariffs, but critics fear that they are not high or long-term enough to attract investment. (Mail & Guardian, March 6, 2009)

DWAF to Acknowledge Towns with the
Cleanest Tap Water

¶10. (U) Department of Water Affairs and Forestry (DWAF) Minister Lindiwe Hendricks launched an incentive-based regulation program which would acknowledge municipalities with excellent drinking water. The Blue Drop Certification Program would assess the drinking water in all municipalities in South Africa, and award those with the highest scores "Blue Drop Status." DWAF plans to publish the program's inaugural assessments in mid-2009. Minister Hendricks emphasized that South Africa's drinking water is among the best in the world. The Blue Drop Certification Program launch coincided with the launch of the National Water Week (NWW) celebrations. The NWW is celebrated every year to raise awareness and educate South Africans about the importance of utilizing water in an environmentally friendly and sustainable manner. (BuaNews, March 2, 2009)